

**HIGHLAND CITY, UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2005**

CITY OF HIGHLAND, UTAH

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CITY OF HIGHLAND, UTAH
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INDEPENDENT AUDITOR'S REPORT

November 3, 2005

**Honorable Mayor
Members of the City Council
Highland City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements, of Highland City, Utah (City) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated November 3, 2005 on my consideration of Highland City, Utah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Greg Ogden,
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The management of Highland City presents the following narrative and analysis of the financial statements and financial activities of Highland City as prescribed by the Government Accounting Standards Board (GASB). The information and analysis pertains to the fiscal year ended June 30, 2005.

Financial Highlights

The assets of Highland City exceeded its liabilities at June 30, 2005 by \$41,698,804 (net assets). Of this amount \$8,544,201 (unrestricted net assets) may be used to meet the government's ongoing obligations.

Highland City's total net assets increased by \$8,788,559. Elements of the increase were: 1) capital assets contributed by developers (secondary water lines, sewer lines, water stock, streets, etc.) increased by \$7,436,436) ongoing operations of the governmental activities provided \$1,474,201; 2) ongoing operations of the business-type activities assets reduced the net assets by \$122,078.

Highland City's governmental funds reported combined ending fund balances at June 30, 2005 of \$7,254,860, an increase of \$2,438,922 in comparison to the prior year. Of the ending fund balances, \$4,355,066 is available for spending at the City's discretion (unreserved fund balance).

At June 30, 2005 unreserved fund balance of the general fund was \$544,630, or 15.6% of total general fund expenditures for the year.

Highland City's total debt decreased by \$618,046 during the fiscal year as a result of scheduled principal payments. No new debt was incurred during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Highland City's basic financial statements. Highland City's basic financial statements comprise three components; 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of Highland City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of Highland City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as an indicator of changes in the financial position of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, uncollected taxes that have been levied but not received.

Both of the government-wide financial statements distinguish functions of Highland City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Highland City include general government, public safety, streets and public improvements, parks and recreation, cemetery and garbage. The business-type activities of Highland City include services for water, pressurized irrigation, sewer (sanitary), and storm sewer.

The government-wide financial statements include Highland City (known as the primary government) and a separate legal entity (known as component unit). The financial information for the Highland Open Space Special Service District is included in the financial statements. However, because the City's governing body is the same as the governing board of this component unit and can substantially control it, their financial information is blended and reported together with the financial information presented for the primary government.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Highland City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations. All of the funds of Highland City can be divided into two categories; governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Highland City maintains six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and three capital projects funds, all of which are considered to be major funds. Data from the other two (2) governmental funds is provided in the form of individual and combining statements elsewhere in this report.

Highland City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

Proprietary funds. Highland City maintains one type of proprietary fund known as an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, pressurized irrigation, sewer, and storm sewer.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water, sewer, secondary water and storm sewer funds because they are considered to be major funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds. They are presented immediately following the notes to the financial statements. Auditor reports on compliance are also included at the end of the document.

Government-wide Financial Analysis

As noted earlier, net assets is an indicator of a government's financial position. In the case of Highland City, assets exceeded liabilities by \$41,598,804 at the close of the fiscal year.

The largest portion of the City's net assets (69.0%) reflects its investment in capital assets (land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

Highland City Net Assets

	Governmental Activities 2004	Business-Type Activities 2004	Governmental Activities 2005	Business-Type Activities 2005
Current and Other Assets	\$6,166,912	\$4,862,770	\$6,129,977	\$3,453,259
Capital Assets	\$8,278,506	\$22,664,457	\$8,967,622	\$31,473,833
Total Assets	\$14,445,418	\$27,527,227	\$15,097,599	\$34,927,092
Long-term Liabilities outstanding	\$710,678	\$6,509,383	\$881,099	\$6,548,922
Other Liabilities	\$1,028,099	\$685,210	\$549,476	\$346,390
Total Liabilities	\$1,738,777	\$7,194,593	\$1,430,575	\$6,895,312
Net assets				
Investment in capital assets, net	\$8,278,506	\$15,763,074	\$5,883,249	\$22,873,237
Restricted	\$1,282,433	\$1,410,284	\$2,628,294	\$1,769,823
Unrestricted	\$3,145,702	\$3,159,276	\$5,155,481	\$3,388,720
Total net assets	\$12,706,641	\$20,332,634	\$13,667,024	\$28,031,780

The remaining balance of unrestricted net assets (\$8,544,201) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Highland City Changes in Net Assets

	Governmental Activities 2004	Business-Type Activities 2004	Governmental Activities 2005	Business-Type Activities 2005
Revenues				
Program Revenues				
Charges for services	\$4,903,750	\$2,077,925	\$2,422,216	\$1,717,944
Operating Grants and Contributions	\$128,815		\$4,220	
Capital Grants and Contributions		\$1,991,714	\$1,967,225	\$5,469,211
General revenues				
Property and uniform vehicle taxes	\$834,345		\$947,512	
Other Taxes	\$1,753,272		\$1,503,874	
Other	\$174,149	\$55,379	\$161,346	\$119,153
Total revenues	\$7,794,331	\$4,125,018	\$7,006,393	\$7,306,308
Expenses				
General government	\$1,102,853		\$1,033,084	
Public safety	\$1,008,176		\$1,288,800	
Streets and public improvements	\$784,873		\$427,390	
Parks and recreation	\$434,885		\$432,467	
Garbage	\$356,133		\$406,322	
Interest on long-term debt	\$58,123		\$45,529	
Cemetery	\$50,805		\$50,528	
Water				\$130,549
Pressurized irrigation		\$973,402		\$917,081
Storm sewer		\$77,569		\$80,849
Sewer		\$630,311		\$711,543
Total expenses	\$3,795,848	\$1,681,282	\$3,684,120	\$1,840,022
Increase in net assets before transfers	\$3,998,483	\$2,443,736	\$3,322,273	\$5,466,286
Transfers	-\$608,487	\$608,487	-\$2,232,860	\$2,232,860
Increase (decrease) in net assets	\$3,389,996	\$3,052,223	\$1,089,413	\$7,699,146
Net assets, beginning	\$9,316,645	\$17,280,411	\$12,706,641	\$20,332,634
Prior Period Adjustments			-\$129,030	
Net assets, ending	\$12,706,641	\$20,332,634	\$13,667,024	\$28,031,780

Governmental activities. As noted in the table above, governmental activities increased the City's net assets by \$1,089,413 . Key elements of the increase were as follows:

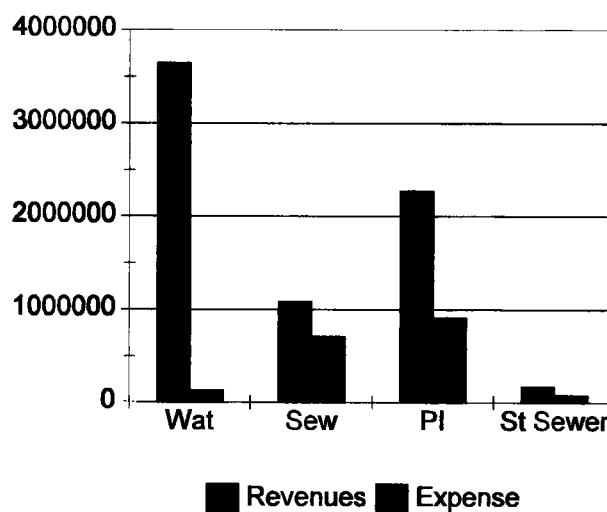
1. Developer fees for parks, roads, and public safety impact fees of \$1,967,225.
2. Transfer of water shares to secondary water enterprise fund -\$2,232,680.
3. Operation of governmental activities increased net assets by \$1,445,868.

Business-type activities. As noted previously in the table "Highland City Changes in Net Assets," business-type activities increased the City's net assets by \$7,699,146. Key elements of the increase were as follows;

1. Developer contributions of \$2,155,543
2. Merger of Highland Water Company Assets \$3,313,688.
3. Transfer of Water Shares From General Fund \$2,232,680.
4. Operation of the business-type activities decreased net assets by \$2,765.

The following chart displays the business-type activities revenues compared to program expenses attributed to the activity. Traditionally business-type activities are self supporting and the chart depicts the relationship of revenues to expenses.

Revenues and Expenses – Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance is a useful measure of the government's net resources available for spending at the end of the fiscal year.

At June 30, 2005, the City's governmental funds reported combined ending fund balances of \$7,254,860, an increase of \$2,438,922 in comparison with the prior year. Approximately 60% of this total amount \$4,355,066 constitutes unreserved fund balance, which is available for spending at the government's discretion. The reserved fund balance is not available for new spending because it has already been committed.

The general fund is the main operating fund of the City. At June 30, 2005, unreserved fund balance of the general fund was \$544,633. A comparison of the unreserved fund balance and total fund balance to total general fund expenditures is a measure of liquidity. Unreserved fund balance represented 15.6% of total general fund expenditures. The City's general fund balance decreased \$382,081 during the fiscal year ended June 30, 2005.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, in more detail.

Water fund-Unrestricted net assets at June 30, 2005 amounted to \$280,717. The water fund was created by the merger of Highland Water Company assets in to Highland City. Revenues were \$334,965 and expenses were \$130,549.

Secondary water fund- Unrestricted net assets at June 30, 2005 amounted to \$949,495, an increase of \$682,538 from the previous year. Revenues were \$615,709 and expenses were \$621,456. Contributions from developers were \$1,386,000.

Storm sewer fund - Unrestricted net assets at June 30, 2005 amounted to \$259,640 an increase of \$112,056. Revenues were \$173,725 and expenses were \$80,849.

Sewer fund - Unrestricted net assets at June 30, 2005 amounted to \$1,898,868, an increase of \$682,538 from the previous year. Revenues were \$593,545 and expenses were \$645,397.

General Fund Budgetary Highlights

During the fiscal year, the general fund's original budget was amended from \$4,192,661 (\$3,422,654 expenditures and \$770,007 transfers) to a final budget total of \$4,146,861 (\$3,755,154 expenditures and \$1,042,207 transfers), a decrease of \$45,800. The decreases and funding sources are briefly summarized below.

An additional amount was transferred to the building capital project fund. The other adjustments were minor in each department. The increases were funded from additional taxes and fees collected.

Capital Assets and Debt Administration

Capital Assets. Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2005 was \$36,172,189 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure and water stock. The total increase in the City's investment in capital assets for the current year was \$7,533,314.

Major capital asset events during the current year included the following:

- 1) Merger of Highland Water Company assets.
- 2) Water Shares purchased and transferred
- 3) Various additions were made to sewer, and secondary water systems by the City and by developers.

Highland City Capital Assets

	Governmental Activities 2004	Business-Type Activities 2004	Governmental Activities 2005	Business-Type Activities 2005
Land	\$3,277,129	\$226,000	\$3,277,129	\$384,582
Water Shares	\$2,232,860			\$13,126,578
Construction in Progress				\$572,071
Buildings	\$1,310,794		\$1,424,465	\$403,376
Machinery and Equip	\$900,224	\$218,229	\$648,375	\$442,956
Infrastructure and Imp	\$1,983,264	\$15,077,020	\$2,501,685	\$18,777,634
Total	\$9,704,271	\$15,521,249	\$7,851,654	\$33,707,197
Less Accumulated Dep	-\$1,425,765	-\$1,911,216	-\$1,383,475	-\$4,003,187
Total net assets	\$8,278,506	\$13,610,033	\$6,468,179	\$29,704,010

Additional information on the City's capital assets is available in the notes to the financial statements.

Long-term debt. On June 30, 2005 the City had a total bonded debt outstanding of \$7,023,390. Of this amount \$5,423,390 was considered general obligation debt and was backed by the full faith and credit of the City; \$1,600,000 was a revenue bond of the City sewer fund.

Highland City Outstanding Debt

	Governmental Activities 2004	Business-Type Activities 2004	Governmental Activities 2005	Business-Type Activities 2005
General obligation bonds		\$5,723,000		\$5,423,390
Revenue bonds		\$1,692,000		\$1,600,000
Other Long Term Debt	\$1,013,027		\$881,098	
Total	\$1,013,027	\$7,415,000	\$881,098	\$7,023,390

The City's total debt decreased by \$618,046 during the current fiscal year as a result of scheduled principal payments.

The sewer revenue bonds (outstanding) were issued to the State of Utah Board of Water Resources and are unrated. The Secondary water bonds are also unrated. The bonds were originally issued in 1996 and were refinanced in 1998.

The Utah State Constitution limits the amount of general obligation debt a municipal government may issue at 4% of its total taxable property value of \$442,635,894, except cities of the third class (Highland City is classified as a third class city) may issue debt up to an additional 8% of its total taxable property value of \$442,635,894 for water systems, artificial lighting systems or sewer systems. On June 30, 2005 the City's limitation was \$17,875,539 and the current general obligation bonds are \$5,423,390 which would be under the limitation and the additional limitation was \$35,751,478 and the sewer bonds are \$1,600,000 which is under the additional limitation.

Economic Factors and Next Year's Budgets and Rates

Inflationary trends of the state and region compare favorably to the national indices. These and other factors were considered in preparing Highland City's budget for the 2005-2006 fiscal year.

The projected growth rate for the fiscal year 2005-2006 is anticipated at around 8.5% with the assumption that the economy continues to grow at the current rate. Increases in the inflation rate due to energy costs may have a negative impact on the city finances.

During the current fiscal year, unreserved fund balance in the general fund decreased by \$544,630. The main reason for the decrease was the transfer of funds to the building capital project fund. The general fund unreserved fund balance of \$544,630 represented 13% of general fund revenues which is within the range of 5 to 18% limit allowed by state law. Use of the fund balance was primarily for maintaining the level of funding for capital projects.

Request for Information

This financial report is designed to provide a general overview of Highland City's activities for those with an interest in the City's operations and position. Questions concerning the information provided in this report or requests for additional financial information should be addressed to: Highland City, Finance Director, 5335 W. 10400 N Highland, Utah 84003.

BASIC FINANCIAL STATEMENTS

CITY OF HIGHLAND, UTAH
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 5,035,181	\$ 3,328,575	\$ 8,363,756
Accounts Receivable, Net of Allowance for Uncollectibles	1,008,640	210,840	1,219,480
Internal Balances	86,156	(86,156)	-
TOTAL CURRENT ASSETS	<u>6,129,977</u>	<u>3,453,259</u>	<u>9,583,236</u>
NONCURRENT ASSETS			
Restricted Assets			
Cash and Cash Equivalents	2,499,443	1,769,823	4,269,266
Capital Assets			
Non Depreciable	3,277,129	14,083,231	17,360,360
Depreciable Assets (net of Depreciation)	3,191,050	15,620,779	18,811,829
TOTAL NONCURRENT ASSETS	<u>8,967,622</u>	<u>31,473,833</u>	<u>40,441,455</u>
TOTAL ASSETS	<u>15,097,599</u>	<u>34,927,092</u>	<u>50,024,691</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	549,476	346,390	895,866
TOTAL CURRENT LIABILITIES	<u>549,476</u>	<u>346,390</u>	<u>895,866</u>
NONCURRENT LIABILITIES			
Due Within One Year	309,382	431,000	740,382
Due in more than One Year	571,717	6,117,922	6,689,639
TOTAL NONCURRENT LIABILITIES	<u>881,099</u>	<u>6,548,922</u>	<u>7,430,021</u>
TOTAL LIABILITIES	<u>1,430,575</u>	<u>6,895,312</u>	<u>8,325,887</u>
<u>NET ASSETS</u>			
Investment in Capital Assets, Net of Related Debt	5,883,249	22,873,237	28,756,486
Restricted for			
Community Improvements	2,628,294	1,769,823	4,398,117
Unrestricted	5,155,481	3,388,720	8,544,201
TOTAL NET ASSETS	<u>\$ 13,667,024</u>	<u>\$ 28,031,780</u>	<u>\$ 41,698,804</u>

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ 1,033,084	\$ 37,016	\$ -	\$ -
Public Safety	1,288,800	972,710	4,220	276,169
Streets and Public Works	427,390	760,257	-	873,547
Parks and Recreation	432,467	193,006	-	817,509
Cemetery	50,528	44,014	-	-
Garbage	406,322	415,213	-	-
Interest on Long-Term Debt	45,529	-	-	-
Total Governmental Activities	3,684,120	2,422,216	4,220	1,967,225
Business-type Activities				
Water	130,549	334,965	-	3,313,668
Sewer	711,543	593,545	-	491,344
Secondary Water	917,081	615,709	-	1,664,199
Storm Sewer	80,849	173,725	-	-
Total Business-type Activities	1,840,022	1,717,944	-	5,469,211
TOTAL PRIMARY GOVERNMENT	\$ 5,524,142	\$ 4,140,160	\$ 4,220	\$ 7,436,436

General Revenues
Property Taxes
Vehicle Taxes
Sales Taxes
Franchise Taxes
Other Taxes
Unrestricted Investment Earnings
Miscellaneous
Transfer of Water Shares
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Prior Period Adjustments
Net Assets - Ending

See the accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (996,068)	-	\$ (996,068)
(35,701)	-	(35,701)
1,206,414	-	1,206,414
578,048	-	578,048
(6,514)	-	(6,514)
8,891	-	8,891
(45,529)	-	(45,529)
<u>709,541</u>	<u>-</u>	<u>709,541</u>
-	3,518,084	3,518,084
-	373,346	373,346
-	1,362,827	1,362,827
-	92,876	92,876
<u>-</u>	<u>5,347,133</u>	<u>5,347,133</u>
<u>709,541</u>	<u>5,347,133</u>	<u>6,056,674</u>
845,733	-	845,733
101,779	-	101,779
925,329	-	925,329
443,773	-	443,773
134,772	-	134,772
154,228	119,153	273,381
7,118	-	7,118
(2,232,860)	2,232,860	-
<u>379,872</u>	<u>2,352,013</u>	<u>2,731,885</u>
1,089,413	7,699,146	8,788,559
12,706,641	20,332,634	33,039,275
(129,030)	-	(129,030)
<u>\$ 13,667,024</u>	<u>\$ 28,031,780</u>	<u>\$ 41,698,804</u>

CITY OF HIGHLAND, UTAH

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2005

	Governmental-type Activities					
	General	Capital Projects General	Capital Projects Building	Capital Projects Northwest	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 717,539	\$ 451,823	\$ 3,082,073	\$ 662,206	\$ 121,540	\$ 5,035,181
Accounts Receivable	53,608	-	-	-	-	53,608
Taxes Receivable	955,032	-	-	-	-	955,032
Due from Other Fund	114,413	-	-	-	11,734	126,147
Restricted Cash	-	1,268,805	700,684	529,954	-	2,499,443
TOTAL ASSETS	\$ 1,840,592	\$ 1,720,628	\$ 3,782,757	\$ 1,192,160	\$ 133,274	\$ 8,669,411
LIABILITIES AND FUND EQUITY						
LIABILITIES						
Accounts Payable	\$ 98,582	\$ 3,750	\$ -	\$ 91,928	\$ 4,423	\$ 198,683
Compensated Absences	71,097	-	-	-	-	71,097
Due to Other Fund	-	-	-	-	39,991	39,991
Development Bonds Held	337,580	-	-	-	-	337,580
Deferred Revenue	767,200	-	-	-	-	767,200
TOTAL LIABILITIES	1,274,459	3,750	-	91,928	44,414	1,414,551
FUND BALANCE						
Reserved						
Impact Fees	-	1,268,805	700,684	529,954	51,823	2,551,266
Class C Roads	-	-	-	-	77,028	77,028
Designated						
Community Improvements	21,500	250,000	-	-	-	271,500
Unreserved	544,633	198,073	3,082,073	570,278	(39,991)	4,355,066
TOTAL FUND EQUITY	566,133	1,716,878	3,782,757	1,100,232	88,860	7,254,860
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,840,592	\$ 1,720,628	\$ 3,782,757	\$ 1,192,160	\$ 133,274	\$ 8,669,411

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

TOTAL GOVERNMENTAL FUNDS BALANCES **\$ 7,254,860**

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. **6,468,179**

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. **767,200**

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. **(823,215)**

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 13,667,024**

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Governmental-type Activities					Total Governmental Funds
	General	Capital Projects General	Capital Projects Building	Capital Projects Northwest	Nonmajor Governmental Funds	
REVENUES						
Taxes	\$ 2,329,947	\$ -	\$ -	\$ -	\$ -	\$ 2,329,947
Licenses and Permits	614,747	-	-	-	-	614,747
Intergovernmental	240,246	37,932	-	-	70,351	348,529
Charges for Services	693,219	-	-	901,802	130,799	1,725,820
Fines and Forfeitures	229,751	-	-	-	-	229,751
Interest	72,564	24,861	52,133	-	4,670	154,228
Miscellaneous	7,118	23,700	-	-	-	30,818
TOTAL REVENUES	4,187,592	86,493	52,133	901,802	205,820	5,433,840
EXPENDITURES						
General Government	847,223	-	2,200	1,984	161,355	1,012,762
Public Safety	1,288,800	-	-	-	-	1,288,800
Streets and Public Works	351,924	-	-	-	-	351,924
Parks and Recreation	325,960	68,469	-	-	-	394,429
Cemetery	63,873	-	-	-	-	63,873
Garbage	406,322	-	-	-	-	406,322
Debt Service						
Principal	155,428	70,618	-	-	-	226,046
Interest and Finance Charges	43,471	9,382	-	-	-	52,853
Capital Outlay	-	256,931	-	-	334,290	591,221
TOTAL EXPENDITURES	3,483,001	405,400	2,200	1,984	495,645	4,388,230
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	704,591	(318,907)	49,933	899,818	(289,825)	1,045,610
OTHER FINANCING SOURCES (USES)						
Impact Fees	-	779,577	276,169	162,831	232,537	1,451,114
Transfers from Other Funds	-	100,000	902,207	-	40,000	1,042,207
Transfers to Other Funds	(1,042,207)	-	-	-	-	(1,042,207)
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES	(337,616)	560,670	1,228,309	1,062,649	(17,288)	2,496,724
BEGINNING FUND BALANCE	948,934	1,122,682	2,554,448	37,583	152,291	4,815,938
PRIOR PERIOD ADJUSTMENTS	(45,185)	33,526	-	-	(46,143)	(57,802)
ENDING FUND BALANCE	\$ 566,133	\$ 1,716,878	\$ 3,782,757	\$ 1,100,232	\$ 88,860	\$ 7,254,860

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

**EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER
EXPENDITURES AND USES - TOTAL GOVERNMENTAL FUNDS** **\$ 2,496,724**

*Amounts reported for governmental activities in the statement of
activities are different because*

Property taxes will not be collected for several months after the City's
fiscal year end. They are not considered to be available revenues in
the governmental funds. Deferred property tax revenues increased
by this amount this year. **121,439**

Governmental funds report capital outlays as expenditures. In the
statement of activities the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount
by which depreciation and transfers exceeded capital outlays in the
current period. **(1,739,099)**

Issuance of long-term debt provides current financial resources to
governmental funds. The repayment of the principal of long-term
debt consumes the current financial resources of governmental funds.
This amount is the net difference in the treatment of long-term debt
and related items. **226,046**

Some revenues and expenses reported in the statement of activities do
not add to or require the use of current financial resources and, therefore,
are not reported as revenues or expenditures in the governmental funds. **(15,697)**

CHANGE IN NET ASSETS OF GOVERNMENTAL FUNDS **\$ 1,089,413**

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u> <u>Amounts</u>	<u>with Final</u> <u>Budget</u>
<u>REVENUES</u>				
Taxes	\$ 2,250,761	\$ 2,307,761	\$ 2,329,947	\$ 22,186
Licenses and Permits	718,600	599,800	614,747	14,947
Intergovernmental	224,000	224,000	240,246	16,246
Charges for Services	762,300	716,300	693,219	(23,081)
Fines and Forfeitures	217,000	229,000	229,751	751
Interest	20,000	20,000	72,564	52,564
Miscellaneous	-	50,000	7,118	(42,882)
TOTAL REVENUES	<u>4,192,661</u>	<u>4,146,861</u>	<u>4,187,592</u>	<u>40,731</u>
<u>EXPENDITURES</u>				
General Government	878,253	903,255	847,223	56,032
Public Safety	1,239,411	1,288,911	1,288,800	111
Streets and Public Works	343,541	378,541	351,924	26,617
Parks and Recreation	276,942	381,041	325,960	55,081
Cemetery	115,785	194,684	63,873	130,811
Garbage	369,823	409,823	406,322	3,501
Debt Service				
Principal	155,428	155,428	155,428	-
Interest and Finance Charges	43,471	43,471	43,471	-
TOTAL EXPENDITURES	<u>3,422,654</u>	<u>3,755,154</u>	<u>3,483,001</u>	<u>272,153</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	770,007	391,707	704,591	312,884
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds	<u>(700,000)</u>	<u>(1,042,207)</u>	<u>(1,042,207)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES	70,007	(650,500)	(337,616)	312,884
FUND BALANCE ALLOCATION	<u>(70,007)</u>	<u>650,500</u>	<u>-</u>	<u>(650,500)</u>
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ (337,616)	\$ (337,616)

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Secondary Water	Storm Sewer	Total Enterprise Funds
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 209,645	\$ 1,920,548	\$ 891,507	\$ 306,875	3,328,575
Accounts Receivable, Net of Allowance for Uncollectibles	73,071	28,614	59,090	38,921	199,696
Other Receivables	-	11,144	-	-	11,144
TOTAL CURRENT ASSETS	282,716	1,960,306	950,597	345,796	3,539,415
NONCURRENT ASSETS					
Restricted Cash					
Cash and Cash Equivalents	-	1,769,823	-	-	1,769,823
Capital Assets					
Land	107,132	-	277,450	-	384,582
Water Shares	426,154	-	12,700,424	-	13,126,578
Construction in Progress	572,071	-	-	-	572,071
Buildings and Structures	81,489	-	321,887	-	403,376
Improvements	3,508,822	4,636,369	10,440,505	191,938	18,777,634
Machinery and Equipment	224,728	45,480	37,753	134,995	442,956
Less Accumulated Depreciation	(1,683,029)	(889,219)	(1,380,844)	(50,095)	(4,003,187)
TOTAL NONCURRENT ASSETS	3,237,367	5,562,453	22,397,175	276,838	31,473,833
TOTAL ASSETS	3,520,083	7,522,759	23,347,772	622,634	35,013,248
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	1,999	61,438	1,102	-	64,539
Accrued Interest Payable	-	26,667	255,184	-	281,851
Due to Other Fund	-	-	-	86,156	86,156
Current Portion of Long-Term Debt	-	96,000	335,000	-	431,000
TOTAL CURRENT LIABILITIES	1,999	184,105	591,286	86,156	863,546
NONCURRENT LIABILITIES					
Bonds Payable	-	1,504,000	4,613,922	-	6,117,922
TOTAL NONCURRENT LIABILITIES	-	1,504,000	4,613,922	-	6,117,922
TOTAL LIABILITIES	1,999	1,688,105	5,205,208	86,156	6,981,468
NET ASSETS					
Investment in Capital Assets, Net of Related Debt	3,237,367	2,165,963	17,193,069	276,838	22,873,237
Restricted					
Community Improvements	-	1,769,823	-	-	1,769,823
Unrestricted	280,717	1,898,868	949,495	259,640	3,388,720
TOTAL NET ASSETS	\$ 3,518,084	\$ 5,834,654	\$ 18,142,564	\$ 536,478	\$ 28,031,780

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Secondary Water	Storm Sewer	
OPERATING REVENUES					
Charges for Services	\$ 258,460	\$ 568,718	\$ 578,557	\$ 173,725	\$ 1,579,460
Connection Fees	76,505	-	-	-	76,505
Miscellaneous	-	24,827	37,152	-	61,979
TOTAL OPERATING REVENUES	334,965	593,545	615,709	173,725	1,717,944
OPERATING EXPENSES					
Salaries and Benefits	21,065	84,709	79,178	59,580	244,532
Operations	33,183	441,941	270,380	2,971	748,475
Depreciation	76,301	118,747	271,898	18,298	485,244
TOTAL OPERATING EXPENSES	130,549	645,397	621,456	80,849	1,478,251
OPERATING INCOME (LOSS)	204,416	(51,852)	(5,747)	92,876	239,693
NON-OPERATING REVENUES (EXPENSES)					
Impact Fees	-	491,344	278,199	-	769,543
Interest Income	-	63,652	54,618	883	119,153
Interest Expense	-	(66,146)	(295,625)	-	(361,771)
TOTAL NON-OPERATING REVENUES (EXPENSES)	-	488,850	37,192	883	526,925
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	204,416	436,998	31,445	93,759	766,618
CONTRIBUTIONS AND TRANSFERS					
Capital Contributions	3,313,668	-	1,386,000	-	4,699,668
Transfer of Water Shares	-	-	2,232,860	-	2,232,860
TOTAL CONTRIBUTIONS AND TRANSFERS	3,313,668	-	3,618,860	-	6,932,528
CHANGE IN NET ASSETS	3,518,084	436,998	3,650,305	93,759	7,699,146
TOTAL NET ASSETS AT BEGINNING OF YEAR	-	5,397,656	14,492,259	442,719	20,332,634
TOTAL NET ASSETS AT END OF YEAR	\$ 3,518,084	\$ 5,834,654	\$ 18,142,564	\$ 536,478	\$ 28,031,780

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer	Secondary Water	Storm Sewer	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 261,894	\$ 601,081	\$ 605,357	\$ 171,307	\$ 1,639,639
Payments to Suppliers	(31,184)	(386,658)	(275,809)	(2,971)	(696,622)
Payments to Employees	(21,065)	(84,709)	(79,178)	(59,580)	(244,532)
NET CASH FLOWS FROM OPERATING ACTIVITIES	209,645	129,714	250,370	108,756	698,485
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Impact Fees	-	491,344	278,199	-	769,543
Acquisition of Capital Assets	-	(27,367)	(564,901)	-	(592,268)
Bond Payments	-	(92,000)	(260,461)	-	(352,461)
Interest Expense	-	(67,680)	(292,764)	-	(360,444)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-	304,297	(839,927)	-	(535,630)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest Income	-	63,652	54,618	883	119,153
NET CASH FLOWS FROM INVESTING ACTIVITIES	-	63,652	54,618	883	119,153
NET CHANGE IN CASH AND CASH EQUIVALENTS	209,645	497,663	(534,939)	109,639	282,008
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	-	3,192,708	1,426,446	197,236	4,816,390
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 209,645	\$ 3,690,371	\$ 891,507	\$ 306,875	\$ 5,098,398

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Secondary Water	Storm Sewer	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 204,416	\$ (51,852)	\$ (5,747)	\$ 92,876	\$ 239,693
Adjustments					
Depreciation	76,301	118,747	271,898	18,298	485,244
Changes in Assets and Liabilities					
Accounts Receivable, Net	(73,071)	502	(10,352)	(2,418)	(85,339)
Other Receivables	-	7,034	-	-	7,034
Accounts Payable	1,999	55,283	(5,429)	-	51,853
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 209,645	\$ 129,714	\$ 250,370	\$ 108,756	\$ 698,485

Noncash Financing and Investing Transactions

Contribution of Fixed Assets through					
Merger with Highland Water Company	\$ 3,313,668	\$ -	\$ -	\$ -	\$ 3,313,668
Developer Contributions of Fixed Assets	\$ -	\$ -	\$ 1,386,000	\$ -	\$ 1,386,000
Water Stock moved from General Fixed Assets	\$ -	\$ -	\$ 2,232,860	\$ -	\$ 2,232,860

See the accompanying notes to the financial statements

HIGHLAND CITY, UTAH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Highland City, Utah (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the City's accounting policies.

Financial Reporting Entity

Highland City was incorporated in 1977 under the laws of the State of Utah. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides municipal services under the following organizational structure:

General Government: Mayor and City Council, City Administrator, Justice Court, Finance, Attorney, Treasurer and Recorder

Public Safety: Police, Fire and Emergency Medical Services, (through Lone Peak Public Safety District), Engineer, Building Inspection, and Animal Control

Public Works: Streets, Water, Sewer, Garbage, Pressurized Irrigation and Storm Drains

Parks and Recreation: Parks, Cemetery and Recreation

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). The component unit discussed below is included as part of the City's reporting entity as a blended component unit.

The Highland City Open Space Special Service District (the District) was established to provide recreation services, including the operation and maintenance of parks, open space and trails within certain areas of the City. The District is governed by a board of trustees composed of the City Mayor and members of the City Council. Although it is a legally separate entity from the City, the District is reported as if it were part of the primary government because of the City's ability to impose its will upon the operations of the District. The District is included in these financial statements as the Open Space Trust Fund. Separate financial statements are not issued for the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTE 1 - (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods or services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within sixty days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *capital projects general fund* accounts for the acquisition or construction of major capital facilities of the City (other than those financed by proprietary funds).

NOTE 1 - (CONTINUED)

The *capital projects building fund* accounts for the construction of buildings of the City.

The *capital projects northwest fund* accounts for capital project activities in the Northwest of the City.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water production, treatment and distribution operations.

The *sewer fund* accounts for the activities of the City's sewer treatment operations.

The *secondary water fund* accounts for the activities of the City's pressurized irrigation distribution operations.

The *storm sewer fund* accounts for the activities of the City's efforts to provide storm drains.

Activities of these four funds include administration, operations and maintenance of the water, sewer, pressurized irrigation and storm drain systems, and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all enterprise fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Fund Equity

A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

NOTE 1 - (CONTINUED)

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

B. Restricted assets

Cash which is restricted to a particular use due to statutory, budgetary or bonding requirements is classified as "restricted cash" on the statement of net assets and on the balance sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

C. Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at the date of the gift, if donated.

Major additions are capitalized, while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings and structures	20-50 years
Improvements and infrastructure	10-50 years
Machinery, equipment and vehicles	5-15 years

D. Compensated absences

Accumulated unpaid vacation is accrued as incurred based on the years of service for each employee. Vacation is accumulated on a monthly basis. Proprietary funds expense all accrued vacation amounts when incurred. Governmental funds report an expenditure as the vacation is paid. Employees may accumulate unlimited vacation. An employee who is separated from employment may be compensated for all accrued vacation. The accumulated sick leave is earned at a rate of one day per month. Sick pay amounts are charged to expenditures when incurred. Employees may accumulate up to 65 days of sick leave. Employees will not be paid for any accumulated sick leave at separation from employment.

NOTE 1 - (CONTINUED)

E. Long-term liabilities

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

F. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of unreserved fund balances are not required by law or accounting principles, but are further classifications of fund equity to identify funds which are earmarked by the City's management for specific purposes. These represent tentative management plans that are subject to change.

G. Net assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Inter-Fund Transactions

During the course of normal operations, the City has transactions between funds to subsidize operations in certain funds, to allocate administrative costs, to construct assets, to distribute grant proceeds, etc. . These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended.

Deferred Revenue

Property taxes due November 30, 2005 and unpaid from 2004 are shown as deferred revenue.

NOTE 1 - (CONTINUED)

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Asset Differences

When capital assets (land, buildings, improvements and equipment) are purchased or constructed for use in governmental fund activities, the costs of those assets are reported as expenditures in the governmental funds. However, those costs are reported as capital assets in the statement of net assets. The details of these differences are presented below:

Land	\$ 3,277,129
Buildings and Structures	1,424,465
Improvements and Infrastructure	2,501,685
Machinery, Equipment and Vehicles	648,375
Less Accumulated Depreciation	<u>(1,383,475)</u>
Net Capital Asset Difference	\$ <u>6,468,179</u>

Other Long-Term Asset Differences

Property taxes due in November 2005 are reported as deferred revenues in the governmental fund balance sheet. However, they are reported as current year revenues in the statement of net assets. The details of these differences are presented below:

Property taxes collectible in November 2005	\$ <u>767,200</u>
---	-------------------

Long-Term Liability Differences

Long-Term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet. All liabilities (both current and long-term) are reported in the statement of net assets. The details of these differences are presented below:

Loans Payable	\$ (710,678)
Accrued Interest	(13,213)
Long-Term Compensated Absences	<u>(99,324)</u>
Total Long-Term Liability Difference	\$ <u>(823,215)</u>

NOTE 2 - (CONTINUED)

Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund financial statements include a reconciliation between changes in fund balances in the governmental funds and changes in net assets in the government-wide statement of activities. This difference primarily results from the long-term economic focus of the statement of activities versus the current financial resource focus of the governmental fund financial statements.

Capital Outlay and Depreciation Differences

Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balances. They are reported as capital assets, with the costs allocated over the useful lives of the assets, as depreciation, in the statement of activities. The details of these differences are reported below:

Capital Outlay	\$ 691,919
Water Shares Transferred to Secondary Water Fund	(2,232,860)
Depreciation Expense	<u>(198,158)</u>
Net Difference	<u><u>\$(1,739,099)</u></u>

Long-Term Debt Issuance and Repayment Differences

When long-term debt is issued it is reported as an other financing source. Repayments are reported as expenditures in the statement of revenues, expenditures and changes in fund balance. Issuance of debt is reported as a long-term liability and repayments are reported as reductions of those liabilities in the statement of activities. The details of these differences are reported below:

Principal Repayments on Loans Payable	<u><u>\$ 226,046</u></u>
--	--------------------------

Other Revenue and Expense Differences

The change in long-term compensated absences and accrued interest are not reported in the statement of revenues, expenditures and changes in fund balance. These changes are reported in the statement of activities. The detail of these differences is reported below:

Change in Long-Term Compensated Absences	\$ (23,021)
Change in Accrued Interest	<u>7,324</u>
Net Difference	<u><u>\$(15,697)</u></u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Prior to the first regularly scheduled meeting of the City Council in May, the Mayor and the City Administrator submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and proposed sources of revenues.

NOTE 3 - (CONTINUED)

Between May 1 and June 22, the City Council reviews and adjusts the proposed budget. On or before June 22, a public hearing is held and the budget is legally adopted through passage of a resolution, unless a property tax increase is proposed. If a property tax increase is proposed, a hearing must be held on or before August 17, which does not conflict with other taxing entities that have proposed a property tax increase. At this time the final balanced budget is adopted.

Under Utah State law, the City's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events.

The City Administrator has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

A public hearing must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

Annual budgets for the general fund, all debt service funds and capital projects funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

Tax Revenues

Property taxes are collected by the County Treasurer and remitted to the City in two to three installments in November, December, and a final settlement in the first quarter of the calendar year. Taxes are levied and are due and payable on November 1st and are delinquent after November 30th of each year, at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes beyond that which was received within 60 days after the fiscal year end has not been made, as the amounts are not deemed to be material.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ended June 30th and thus due and payable to the City.

Franchise taxes are charged to various utility companies doing business with the City including telephone, cable television, gas utility, and electric utility companies. The fees are remitted on a monthly, quarterly, or annual basis. An accrual has been made for all fees due and payable to the City at June 30th.

NOTE 4 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "Pooled Cash and Cash Equivalents" which also includes cash accounts that are separately held by several of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

NOTE 4 - (CONTINUED)

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

Custodial Credit Risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2005, \$187,199 of the City's bank balances of \$298,306 were uninsured and uncollateralized.

At June 30, 2005, the carrying amount and the bank balance of the City's bank deposits was a deficit of \$78,629 and a positive \$298,306, respectively.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers acceptances; obligations of the United State Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF),

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses - net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

NOTE 4 - (CONTINUED)

As of June 30, 2005, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	<u>\$12,711,651</u>	<u>\$12,711,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The deposits and investments described above are included on the statement of net assets as per the following reconciliation:

Deposits	\$ (78,629)
Investments	<u>12,711,651</u>
Total	<u>\$ 12,633,022</u>
Cash and Cash Equivalents	\$ 8,363,756
Restricted Cash and Cash Equivalents	<u>4,269,266</u>
Total	<u>\$ 12,633,022</u>

NOTE 5 - RECEIVABLES

Accounts receivable and the associated allowances for doubtful accounts at June 30, 2005 are presented in the schedule below.

Property taxes are levied on January 1 of 2005, are due in November of 2005, and are budgeted for the 2005 fiscal year. Even though they are not intended to fund the 2005 fiscal year, they must be recognized as an asset because the City has an enforceable claim to the revenue. The property taxes that have been remitted to the City within 60 days of the end of the current fiscal period have been recognized as revenue. The uncollected, measurable amounts have been accrued as deferred revenue.

Franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the City.

The following is a summary of receivables at June 30, 2005:

	Governmental Activities	Business-type Activities	Total
Accounts Receivable	\$ 57,608	\$ 207,696	\$ 265,304
Allowance for Doubtful Accounts	(4,000)	(8,000)	(12,000)
Property Taxes Receivable	782,465	-	782,465
Sales Taxes Receivable	81,899	-	81,899
Class C Road Receivable	71,745	-	71,745
Franchise Taxes Receivable	18,923	-	18,923
Other Receivables	-	11,144	11,144
	<u>\$ 1,008,640</u>	<u>\$ 210,840</u>	<u>\$ 1,219,480</u>

NOTE 6 - CAPITAL ASSETS

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2005.

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 3,277,129	\$ -	\$ -	\$ 3,277,129
Water Stock	2,232,860	-	(2,232,860)	-
Capital Assets being Depreciated				
Buildings and Structures	1,310,794	113,671	-	1,424,465
Improvements and Infrastructure	1,983,264	518,421	-	2,501,685
Machinery, Equipment and Vehicles	900,224	59,827	(311,676)	648,375
Total	9,704,271	691,919	(2,544,536)	7,851,654
Less Accumulated Depreciation	(1,425,765)	(198,158)	240,448	(1,383,475)
Governmental Activities Capital Assets, Net	\$ 8,278,506	\$ 493,761	\$ (2,304,088)	\$ 6,468,179

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2005.

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 226,000	\$ 158,582	\$ -	\$ 384,582
Water Shares	9,054,424	4,072,154	-	13,126,578
Construction in Progress	-	572,071	-	572,071
Capital Assets being Depreciated				
Buildings and Structures	321,887	81,489	-	403,376
Improvements and Infrastructure	14,755,134	4,022,500	-	18,777,634
Machinery, Equipment and Vehicles	218,228	224,728	-	442,956
Total	24,575,673	9,131,524	-	33,707,197
Less Accumulated Depreciation	(1,911,216)	(2,091,971)	-	(4,003,187)
Governmental Activities Capital Assets, Net	\$ 22,664,457	\$ 7,039,553	\$ -	\$ 29,704,010

NOTE 6 - (CONTINUED)

Depreciation was charged to the functions/programs of the primary government as follows:

Government Activities	
General Government	\$ 16,881
Streets and Public Works	132,883
Parks and Recreation	42,639
Cemetery	<u>5,755</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 198,158</u>
Business-type Activities	
Water	\$ 76,301
Sewer	118,747
Pressurized Irrigation	271,898
Storm Drain	<u>18,298</u>
Total Depreciation Expense-Business-type Activities	485,244
Depreciation on Water Assets	
Contributed from Highland Water Company	<u>1,606,727</u>
Increase in Business-type Activities Depreciation	<u>\$ 2,091,971</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses at June 30, 2005:

	Governmental Activities	Business-type Activities	Total
Accounts Payable	\$ 198,683	\$ 64,539	\$ 263,222
Accrued Interest Payable	13,213	281,851	295,064
Developer Bonds Payable	<u>337,580</u>	<u>-</u>	<u>337,580</u>
	<u>\$ 549,476</u>	<u>\$ 346,390</u>	<u>\$ 895,866</u>

NOTE 8 - LONG-TERM DEBT

The following is a summary of changes in Governmental Activities long-term debt of the City for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Loans Payable					
1998 Cemetery Mortgage	\$ 489,943	\$ -	\$ (49,502)	\$ 440,441	\$ 52,472
1998 Park Mortgage	446,781	-	(176,544)	270,237	185,813
Compensated Absences	<u>76,303</u>	<u>94,117</u>	<u>-</u>	<u>170,420</u>	<u>71,096</u>
	<u>\$ 1,013,027</u>	<u>\$ 94,117</u>	<u>\$ (226,046)</u>	<u>\$ 881,098</u>	<u>\$ 309,381</u>

NOTE 8 - (CONTINUED)

The following is a summary of changes in Business-type Activities long-term debt of the City for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-type Activities</u>					
Revenue Bonds					
1997 Sewer	\$ 1,692,000	\$ -	\$ (92,000)	\$ 1,600,000	\$ 96,000
General Obligation Bonds					
1996A Irrigation Water	555,000	-	(255,000)	300,000	300,000
1996B Irrigation Water	123,390	-	-	123,390	-
1998 Irrigation Refunding	<u>5,045,000</u>	<u>-</u>	<u>(45,000)</u>	<u>5,000,000</u>	<u>35,000</u>
	<u>\$ 7,415,390</u>	<u>\$ -</u>	<u>\$ (392,000)</u>	7,023,390	<u>\$ 431,000</u>
Unamortized Bond Issuance Costs and Discounts				<u>(474,468)</u>	
				<u>\$ 6,548,922</u>	

Long-term debt and obligations payable at June 30, 2005 were as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Current Portion</u>	<u>Long-term Balance</u>
<u>Governmental Activities</u>				
Cemetery Mortgage (original amount--\$766,281)	6.00%	2012	\$ 52,472	\$ 387,969
Park Mortgage (original amount--\$1,205,871)	5.25%	2007	185,813	84,424
Compensated Absences			<u>71,096</u>	<u>99,324</u>
Total Governmental Activities Long-term Debt			<u>\$ 309,381</u>	<u>\$ 571,717</u>
<u>Business-type Activities</u>				
Irrigation Water General Obligation Bonds, Series 1996A (original amount-- \$9,600,000)	5.00%	2006	\$ 300,000	\$ -
Irrigation Water General Obligation Bonds, Series 1996B (original amount--\$123,390)	4.00%	2018	-	123,390
Irrigation General Obligation Refunding Bonds, Series 1998B (original amount-- \$8,675,000)	4.00% to 4.65%	2017	35,000	4,965,000
Sewer Revenue Bonds, Series 1997 (original amount--\$2,176,000)	4.00%	2018	96,000	1,504,000
Unamortized Bond Issuance Costs and Discounts			<u>-</u>	<u>(474,468)</u>
Total Business-type Activities Long-term Debt			<u>\$ 431,000</u>	<u>\$ 6,117,922</u>

NOTE 8 - (CONTINUED)

Principal and interest requirements to retire the City's long-term obligations are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Government-Wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 238,285	\$ 40,614	\$ 431,000	\$ 279,329	\$ 669,285	\$ 319,943
2007	140,044	27,710	460,000	289,791	600,044	317,501
2008	58,957	19,941	479,000	269,141	537,957	289,082
2009	62,495	16,403	503,000	227,544	565,495	243,947
2010	66,245	12,654	522,000	210,667	588,245	223,321
2011-2015	144,652	13,145	2,975,000	726,340	3,119,652	739,485
2016-2018	-	-	1,653,390	357,982	1,653,390	357,982
	<u>\$ 710,678</u>	<u>\$ 130,467</u>	<u>\$ 7,023,390</u>	<u>\$ 2,360,794</u>	<u>\$ 7,734,068</u>	<u>\$ 2,491,261</u>

NOTE 9 - RESERVED FUND EQUITY

The Class "C" Roads allotment from the state excise tax is reserved for construction and maintenance of City streets and roads. Utah State statute requires unexpended impact fees held at year-end to be reserved for future expansion in the charging department or fund. In addition, funds have been designated for various capital projects.

NOTE 10 - RETIREMENT PLANS

Plan Description

Highland City contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement systems, 540 East 200 South Salt Lake City, Utah 84102-2099 or by calling 1-800-365-8772.

Funding Policy

In the Local Governmental Noncontributory Retirement System, Highland City is required to contribute 11.09% of plan members' annual covered salary. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Highland City's contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2005, 2004, and 2003 were \$64,307, \$44,423 and \$31,355 respectively. The contributions were equal to the required contributions for each year.

NOTE 11 - DEFERRED COMPENSATION PLANS

The City sponsors a defined contribution deferred compensation plan administered by Utah Retirement Systems under the Internal Revenue Code Section 457 for some City employees covered by the State's contributory retirement plans. The plan, available to all permanent full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 457 deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended June 30, 2005, 2004, and 2003 contributions totaling \$19,225, \$16,114, and \$16,157, respectively were made to the plan by employees and \$76,690, \$58,796 and \$50,682 respectively by the City.

The City sponsors a defined contribution deferred compensation plan administered by Utah Retirement Systems under the Internal Revenue Code Section 401(k) for some City employees covered by the State's contributory retirement plans. The plan, available to all permanent full-time City employees permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 401(k) deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended June 30, 2005, 2004, and 2003 contributions totaling \$20,372, \$19,416 and \$16,157, respectively were made to the plan by employees and \$45,058, \$34,916, and \$27,801 respectively by the City.

NOTE 12 - RISK MANAGEMENT

Highland City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other governments in the State of Utah to form the Utah Local Governments Trust (ULGT), a public entity risk pool currently operating as a common risk management and insurance program for Utah State governments. The City pays an annual premium to ULGT for its general insurance coverage.

The City also carries comprehensive general liability insurance coverage through a commercial insurance company. Settled claims from this risk type have not exceeded coverage in any of the past three fiscal years.

NOTE 13 - OPERATING TRANSFER RECONCILIATION

The operating transfers among the funds were as follows:

	In	Out
General Fund	\$ -	\$ 1,042,207
Open Space	40,000	-
Capital Projects - Parks	100,000	-
Capital Projects - Building	902,207	-
	<u>\$ 1,042,207</u>	<u>\$ 1,042,207</u>

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES

The City has the following interfund loans outstanding at June 30, 2005:

<u>Payable Fund</u>	<u>Amount</u>
Open Space	\$ 28,257
Storm Sewer	<u>86,156</u>
 <u>Receivable Fund</u>	
General	<u>\$ 114,413</u>

NOTE 15 - HIGHLAND WATER COMPANY MERGER

During the 2005 fiscal year, the City agreed to merge with the Highland Water Company. In April 2005, Highland Water Company transferred most of its assets and liabilities to Highland City. In May 2005, the City started billing water customers. The following fixed assets were transferred to the City as part of this merger:

Land	\$ 107,132
Water Stock	426,154
Construction in Progress	572,071
Buildings and Structures	81,489
Improvements	3,508,822
Machinery and Equipment	<u>224,728</u>
 Total Fixed Assets Transferred	 <u>\$ 4,920,396</u>

NOTE 16 - PRIOR PERIOD ADJUSTMENTS

Three prior period adjustments were posted in 2005. Two of these prior period adjustments affected the fund financial statements. The first entry was an increase in the general fund balance of \$13,292 for franchise taxes which were received during the 2005 fiscal year, but which were receivable in the 2004 fiscal year. The second entry was a decrease in the general fund balance of \$71,096 for the current portion of compensated absences. The final entry only affected the government-wide financial statements. This entry was a decrease in the general fund net asset balance in the amount of \$71,228 which was the net remaining undepreciated value of equipment which was donated several years ago to the Lone Peak Public Safety District.

NOTE 17 - RELATED PARTY TRANSACTIONS

The City Treasurer and the Finance Director are related through marriage as sister-in-law and brother-in-law, respectively.



SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND, UTAH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Fund	Capital Projects	Total Nonmajor Governmental Funds
	Open Space Trust	General Road	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ -	\$ 121,540	\$ 121,540
Due from Other Fund	-	11,734	11,734
TOTAL ASSETS	\$ -	\$ 133,274	\$ 133,274
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ 4,423	\$ 4,423
Due to Other Fund	39,991	-	39,991
TOTAL LIABILITIES	39,991	4,423	44,414
<u>FUND BALANCE</u>			
Reserved for Impact Fees	-	51,823	51,823
Reserved for Class C Roads	-	77,028	77,028
Unreserved	(39,991)	-	(39,991)
TOTAL FUND EQUITY	(39,991)	128,851	88,860
TOTAL LIABILITIES AND FUND EQUITY	\$ -	\$ 133,274	\$ 133,274

CITY OF HIGHLAND, UTAH
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Special Revenue Fund</u>	<u>Capital Projects</u>	
	<u>Open Space Trust</u>	<u>General Road</u>	<u>Total Nonmajor Governmental Funds</u>
<u>REVENUES</u>			
Intergovernmental	\$ -	\$ 70,351	\$ 70,351
Charges for Services	127,242	3,557	130,799
Interest	-	4,670	4,670
TOTAL REVENUES	127,242	78,578	205,820
<u>EXPENDITURES</u>			
General Government	161,355	-	161,355
Capital Outlay	-	334,290	334,290
TOTAL EXPENDITURES	161,355	334,290	495,645
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(34,113)	(255,712)	(289,825)
<u>OTHER FINANCING SOURCES</u>			
Impact Fees	-	232,537	232,537
Transfers From Other Funds	40,000	-	40,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	5,887	(23,175)	(17,288)
BEGINNING FUND BALANCE	265	152,026	152,291
PRIOR PERIOD ADJUSTMENT	(46,143)	-	(46,143)
ENDING FUND BALANCE	\$ (39,991)	\$ 128,851	\$ 88,860

STATE LEGAL COMPLIANCE REPORT

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

November 3, 2005

**The Honorable Mayor
Members of the City Council
Highland City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Highland City, Utah, as of and for the year ended June 30, 2005 and have issued my report thereon dated November 3, 2005. As part of my audit, I have audited Highland City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

**"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)**

The City also received the following nonmajor grant which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of the City's financial statements.)

State Trail Grant

My audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Compliance Audit Guide, including:

**Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property
Tax Limitations
Class C Road Funds**

**Special Districts
Other General Issues
Uniform Building Code Standards
Liquor Law Enforcement
Justice Court
Impact Fees
Asset Forfeiture**

The management of Highland City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to above which is described in the accompanying management letter. I considered this instance of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, Highland City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.


Greg Ogden,
Certified Public Accountant

GOVERNMENT AUDITING STANDARDS REPORT

**GREG OGDEN, CPA
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SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 3, 2005

**Honorable Mayor
Members of the City Council
Highland City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information which collectively comprise the basic financial statements of Highland City, Utah and have issued my report thereon dated November 3, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Highland City, Utah's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the management letter under the internal controls heading.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland City, Utah's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Audit Committee, the City's management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

 CPA
Greg Ogden
Certified Public Accountant

HIGHLAND CITY, UTAH

MANAGEMENT LETTER
JUNE 30, 2005

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

November 3, 2005

**Honorable Mayor
Members of the City Council
Highland City, UT**

Council Members:

The primary purpose of my audit of the basic financial statements of Highland City, Utah for the year ended June 30, 2005, was to enable me to form an opinion as to the financial position of the City at that date and the results of its operations for the year then ended. Part of my continuing professional responsibility to my clients is to offer constructive suggestions relative to the City's internal control structure and other matters that come to my attention during my audit of your financial statements. Your internal control structure is extremely important because it is the principal safeguard against irregularities which an audit may not disclose.

Enclosed for your information and consideration are my comments and suggestions relating to internal accounting controls and other general matters which came to my attention during my audit of the financial statements. I have not performed any auditing procedures beyond the date of my opinion on the financial statements; accordingly, this letter is based on my knowledge as of that date and should be read with that understanding.

In those instances where the need for improvement of internal accounting controls may be indicated, I have satisfied myself by extension of audit tests and review that the indicated weaknesses have not had a significant effect upon the financial statements for the year ended June 30, 2005. Since the purpose of my audit was not to make an intensive study of the matters commented upon, additional investigation may be required before acting on my suggestions.

My suggestions deal exclusively with operational, accounting, and recordkeeping systems and procedures, and should not be regarded as a reflection on the integrity or capabilities of anyone in your organization.

I appreciate the cooperation and assistance I have received from the City's personnel in connection with my audit and in developing these recommendations.

This report is intended solely for the use of the management of Highland City. However, this report is a matter of public record and its distribution is not limited.

I would be pleased to discuss any of these matters with you and your representatives at your convenience and, if desired, to assist you in implementing any of these suggestions.


**Greg Ogden
Certified Public Accountant**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE COMPLIANCE FINDING

FINDING - OPEN SPACE FUND DEFICIT BALANCE

The open space fund has a deficit balance of \$39,991 at June 30, 2005.

RECOMMENDATION

I recommend that you transfer money into this fund sufficient to offset the deficit balance.

RESPONSE - HIGHLAND CITY

We will make a transfer in the 2006 fiscal year sufficient to offset the deficit balance.

INTERNAL CONTROL FINDINGS

FINDING -UTILITY CASH CLEARING ACCOUNT

The Utility Cash Clearing account should have a zero balance each month if there are no errors in the utility program. This account had a fluctuating balance each month of the 2005 fiscal year. Problems with payment adjustments were responsible for most of the errors. However, in April the amount posted as water usage was responsible for the error that month.

RECOMMENDATION

I recommend that you call Caselle and have them instruct you on changing the accounting for payment adjustments. You may also want to have them verify that the water billing is set up correctly. Finally, I recommend that you examine this account each month and promptly investigate any differences.

RESPONSE - HIGHLAND CITY

Refunds for customers will be posted to the Utility Cash Clearing account which should insure the account will balance to zero each month.

FINDING - IDENTIFY FRAUD RISKS

The City has adopted and implemented internal controls to minimize the risk of fraud. However, each system of internal controls has weaknesses. Identifying fraud risks in your City's system of internal controls is an important step in preventing fraud.

RECOMMENDATION

I recommend that the City's management consider and identify the risks of fraud. I expound on some potential risks of fraud in the next three findings.

RESPONSE - HIGHLAND CITY

The City Council and Mayor will have a work session in the near future and invite our auditor to receive input regarding specific steps to prevent fraud.

FINDING - RELATED PARTY TRANSACTIONS

I will preface this by saying that I am not implying that there is any fraud or collusion within your City. I did not discover anything that indicated fraud. However, an important internal control is limiting the chance for collusion by ensuring that related persons are not in positions where their combined duties would allow total control over any aspect of the financial system. The City Treasurer and the Finance Director are brother and sister-in-law. Again, I want to emphasize I found nothing that indicated fraud.

RECOMMENDATION

I recommend that someone other than one of the related parties be assigned to review these employees' work. This could be an employee or a member of the City Council. I also recommend that another employee perform their duties while they are on vacation.

RESPONSE - HIGHLAND CITY

The Finance Director and Treasurer are related by marriage and in the past 25 years there has been no problems regarding this relationship. The Treasurer has other people doing some of her duties and the City Administrator reviews the financial information prepared by the Finance Director and Treasurer.

FINDING - CASHIER FUNCTION

Most of the employees in the office have the authority to receive cash. This is more convenient for the citizens, but it limits the effectiveness of your internal controls over cash.

RECOMMENDATION

I recommend assigning the cashiering function to fewer employees. You may also want to consider purchasing a cash register.

RESPONSE - HIGHLAND CITY

The City will look at having fewer people handle cash and look into getting a printer to print the cash receipts. The City will also see if having a separate cash drawer would make sense - a cash register will only help if it interfaces with the Caselle computer system.

FINDING - CASELLE PASSWORDS

The Caselle accounting program has the ability to limit each employee's access to those portions of the program related to the employee's duties. This type of password is not currently being used by Highland City.

RECOMMENDATION

I recommend that you implement the use of passwords in Caselle to limit access appropriately for each employee. I recommend that you require that employees change their passwords periodically. Administrative employees can be given a password that allows them access to the entire program.

RESPONSE - HIGHLAND CITY

Specific passwords will be issued to all employees so that they only have access on the system related to their specific duties. A password policy will be developed so the passwords are changed on a regular basis.